Current Economic Issues

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To the Limit: Canada's Agricultural Marketing Boards

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In Chapter 3, we looked at price supports as one way to stabilize prices at favourable levels in agricultural markets. There is another method of stabilizing agricultural prices that requires no outlay of government funds. Farmers producing a certain item may be allowed to establish a marketing board which has the sole right to sell that product, and which can set individual output caps (known as quotas) for each farmer. The sum of individual quotas represents a restricted quantity supplied in the market — a situation that applies in both the Canadian dairy industry as well as egg production.

To see their impact of marketing boards, let's look at the hypothetical milk market shown in Figure A. With no board, market equilibrium occurs where D and S_0 intersect, with 60 million litres of milk sold at a price of $1.10. The newly established marketing board chooses to set quotas that restrict total market output to 59 million litres. The result is a kinked supply curve, S_1, which becomes vertical at the restricted output. Market equilibrium moves to the lower output level of 59 million litres and a higher price of $1.30.

WINNERS AND LOSERS

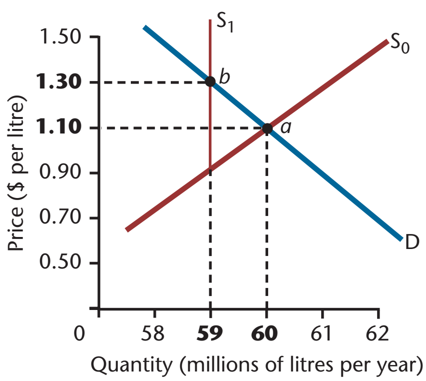
Who wins and who loses from the formation of the marketing board? The effect on consumers is obvious: they are forced to pay a higher price than they would otherwise, and reduce their consumption of this item. The effect on farmers is variable. Farmers

FIGURE A The Impact of Marketing Boards

Demand and Supply Schedules for Milk

Price ($ per litre)	Quantity Demanded (D)	Quantity Supplied (S_0) → (S_1)
	(millions of litres)	
$1.50	58	62 → 59
1.30	**59**	61 → 59
1.10	**60**	60 → 59
.90	61	59 → 59
.70	62	58 → 58

Demand and Supply Curves for Milk



Without a marketing board, equilibrium in the market for milk would occur at point *a*, where D and S_0 intersect, with a price of $1.10 and 60 million litres of milk sold. By restricting output to 59 million litres, the board imposes a new supply curve, S_1, thereby raising the price to $1.30 per litre (point *b*).

in business before the quotas were introduced benefit through the greater revenues that flow from the price increase. There is an important secondary benefit as well, given that their quota also becomes an economic good that can be bought and sold at substantial prices. Why are quotas so valuable? Because they provide the right to operate in a restricted market in which producers can earn positive economic profits, even in the long run. The value of quotas in both Canadian dairy and egg production can be quite substantial — in the hundreds of thousands or millions of dollars per farm. While long-established farmers gain in these ways, new farmers who enter the market by purchasing a quota are not necessarily beneficiaries, since the quota's value will tend to reflect the future economic profits they can expect to make. Finally, taxpayers are not affected by the imposition of a marketing board, since its operations can be funded completely by the higher prices that the output restriction provides.

While marketing boards are still a factor in Canadian dairy and egg markets, it is likely that in the long run their significance will wane. This is because the Canadian government has signed international trade agreements that are gradually allowing foreign producers to be fully competitive in these markets. Once foreign producers have full access, the ability of Canada's marketing boards to restrict output and push up prices will end. While Canadian consumers will benefit from this trend, Canadian producers will do what they can to try to keep their markets protected from international competition.

1. As shown in Figure A, the establishment of a marketing board causes both an increase in price and a reduction in quantity sold in the market. Explain under what conditions this would lead to a rise in farmers' total revenue.

2. Once foreign imports of dairy products and eggs are freely allowed in Canada, what will happen to the value of the individual quotas being held by producers in these industries? Why?